

# MARQUETTE BUSINESS REVIEW

A JOURNAL OF FUNDAMENTAL BUSINESS PRINCIPLES

**FEBRUARY, 1960**

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# *What's Ahead in Foreign Aid*

Proceedings of the  
INSTITUTE ON UNITED STATES FOREIGN AID

Held on December 11 and 12, 1959  
at  
Marquette University

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## INTRODUCTION

The Very Reverend E. J. O'Donnell, S. J.  
President, Marquette University

People can act intelligently in the solution of world problems only to the extent to which they understand the problem. One such problem currently facing the American people -- and affecting all the peoples of the world -- is the future foreign aid or mutual assistance program of the United States. Have changing circumstances created the need for an increased, modified, or reduced program for the years ahead?

In keeping with its role as an institution of higher learning dedicated to the pursuit of truth and community service, Marquette University sees as one of her own functions to make available to the people of the community the pertinent information about such a problem as accurately as it can be presented. The University feels she must create situations in which people can deliberate about the facts and thereby lay the foundation for an intelligent decision.

In line with this purpose, a conference was held at the University on December 11 and 12, 1959, discussing the question of "What's Ahead in Foreign Aid?" Five men who have devoted themselves to a study of this question were invited to address the conference and to provide the background and stimulus for the general discussions which followed. In this community venture Marquette University was joined by the World Affairs Council of Milwaukee, the League of Women Voters, and the World Trade Club of Milwaukee as co-sponsors.

The texts of the five principal addresses are reprinted in this issue of the Marquette Business REVIEW as a further contribution to the understanding of this national problem. It is hoped that the reader will gain some new insights into the problem and will catch some notion of the commerce in ideas, the seriousness of the deliberation, and the course of the arguments which characterized the conference.



## OUR STAKE IN FOREIGN AID

Dennis A. FitzGerald

The subject which has been assigned to me for this evening is "Our Stake in Foreign Aid." I wish that the Mutual Security Program had no future, that we had no stake in it. The greatest news for all of us would be an announcement by the President that this program could come to an end -- that it was no longer needed.

Such an announcement would mean that the military threat to the United States no longer existed; that no defense partner of ours had a larger defense burden than its economy could reasonably bear; that there was no need for outside governmental financial help for the economic and social development anywhere in the world; that each nation, new or old, had enough of the knowledge and skills it needed for progress; that emergencies such as famines, floods, fires or political upheavals could be handled without U.S. Government assistance.

Unfortunately, this millenium is not within sight, much less within reach. In its absence, or any reasonable facsimile thereof, we will need, in our own national interest, a Mutual Security Program to deal constructively and imaginatively with the hard facts of international life. Which are the most important of these facts? I shall deal with three:

1. The fact of tremendous military power in unfriendly hands.
2. The fact of surge for economic and social progress in all the underdeveloped nations.
3. The fact of growing U.S. dependence on overseas trade.

\* \* \* \* \*

1. **Military Power:** Despite the talk of peace, negotiation and co-existence, we still face a most formidable military problem. Milwaukee is only 15 minutes away from Moscow -- by intercontinental ballistic missile, which the Russians say they possess. The conventional air power of the Sino-Soviet bloc consists of about 25,000 planes in operational units and it is a well known fact that Russian jets are good. In the Russian and Chinese armies are some 400 line divisions, totalling more than six and a half million soldiers. The naval strength includes some 3,000 combatant vessels, of which about 500 are submarines. There has been no reduction in the Sino-Soviet military power. These forces still exist and are being equipped with better weapons every day.

We are still faced with international Communism devoted to an often-stated purpose of taking over the world. Mr. Khrushchev has never,

for one minute, budged on this point. It is an article of faith with him that Communism will follow Capitalism as night follows day. The only apparent change is in tactics, and we do not yet know whether this relatively new phenomenon will be a permanent change, or only a temporary one.

In the past, the Sino-Soviet bloc has proved, over and over and over again, that it will not hesitate to use armed force or threats of armed force to achieve its goals. The record of military occupation to install puppet governments in Eastern Europe; the record of the Berlin Blockade; the record of the take-over of China; the record of Communist abetter insurrections in Greece, Malaya, Indo-China, the Philippines; the record of aggression in Korea --and now in India; the dismal record is on the books --clear for all to see.

It took time to realize that the Sino-Soviet bloc would keep on using armed forces to gobble up its neighbors unless stopped by military power. It took more time, working with our defense partners, to put together the free world defense strength to stop that outward march. I do not know any way, at present, to keep the Sino-Soviet bloc from engaging in further military action except for us to make it too risky for it to do so. We have made that risk too great and we must maintain this position until such time as we get workable and enforceable agreements which can bring about real peace and disarmament.

It is not the United States defense forces alone; it is not the defense forces of our Allies alone; it is not the air and naval bases made available to us -- none of these individual defense items could have done the job. But a free world collective defense, with many partners working together, helping each other -- with all partners undertaking burdensome expenditures, all partners putting great numbers of young men into armies, navies and air forces; all partners devoting large amounts of materiel to defense -- all this has done the job.

2. Economic and Social Progress: I turn now to the second hard fact we face -- the surge for economic and social progress. The tens of millions, indeed the hundreds of millions of people, in the underdeveloped parts of the world in Africa, Asia, and Latin America, are no longer content merely to exist. As communication improves and brings knowledge of the outside world to great masses of these people, their conviction grows that their lot can and indeed must be improved. This demand for progress is particularly insistent in the twenty one new countries with a population of 720 million people who have obtained their political independence since the end of World War II. Other new countries, perhaps as many more, will appear on the scenes during the next decade.

In all the underdeveloped countries, whether new or old, annual incomes are likely to average less than \$100 a year. Illiteracy, disease, and malnutrition have been the rule rather than the exception. The leaders of these countries, either on their own or because of the pressure from within, or both, are committed to advance the well being of their people. Whether this economic development takes place under a political

system which is compatible with ours, a system which is based on the freedom and dignity of the individual, is vitally important to the security of the United States.

Let me stress that even though we may have convinced the Sino-Soviet bloc that the risk of military aggression is too great, we should not be lulled into believing that other forms of competition with international communism no longer exist or are declining. Indeed, it seems clear that the situation is exactly the reverse. As the advance of the retaliatory power of the free world makes the prospect for the achievement of the goal of world domination through overt military aggression more and more costly, the USSR and its satellites are turning more and more to other means for achieving their "ultimate goal."

During the past three years or so, the communist bloc -- largely the USSR -- has entered into agreements for the provision of \$2.4 billion worth of economic assistance to 21 countries, primarily underdeveloped countries on the periphery of the bloc itself. The bloc is probing -- and probing deeply -- on the economic front all over the Free World and appears to be eyeing with increasing interest the great continent of Africa and its many newly emerging countries. As the productive capacity of the Sino-Soviet bloc grows, particularly in the USSR, we can confidently expect a continuous increase in Communist efforts at economic penetration and political subversion.

3. U.S. Economic Need: The third important fact of life in the international world today is the increasing dependence of the United States on the rest of the world for raw materials and other imports to meet its ever growing internal requirements, on the one hand, and as markets for its products, on the other. During the past two decades our imports have increased five-fold and our exports seven-fold. The latter amounted to nearly \$21 billion last year and exceeded our imports by nearly \$3-1/2 billion. Nevertheless, this surplus in our trading account has not been sufficient to offset the red ink in our invisibles, principally the U.S. military expenditures abroad; the U.S. government grants, loans and other capital outflow; and private capital outflow for investment.

It is clear that the United States cannot run a balance-of-payments deficit of the current size indefinitely. Recently, the Secretary of State commented on this matter as follows:

The problem is to see to it that the deficit is reduced by means which enlarge international trade and do not restrict it -- by methods which promote competition and the flow of developmental capital rather than restrict them. If this approach is to succeed, action is required of other countries, particularly Western Europe and Japan, to open their doors to American exports and to provide additional capital to the development of hungry nations of Asia, Africa, and the Near East and Latin America. At the recent meetings of the International Monetary Fund and the General Agreement on

Tariffs and Trade, the United States called for an end to the discriminatory restrictions which many foreign countries have been compelled to maintain against American exports in earlier years, but which are no longer needed. Our request received gratifying support on all sides. Both the Fund and GATT institutions recorded the view that discriminatory restrictions can no longer be generally justified on balance-of-payments grounds and many countries have taken action to eliminate discriminations.

The United States has been built upon the energy and initiative of individuals and upon the belief that, under the broad rules of fair play, free competition and initiative are the sinews of our economic and political strength. This holds true of our international activities as well as our domestic affairs.

But let us make no mistake about it. If, through indifference and lack of understanding on our part we ignore the legitimate requirements of the free world for the resources to help it make economic progress and it turns elsewhere for this help and if, as a consequence, it adopts the political and economic practices of communism, our present balance-of-payments difficulties will fade into insignificance.

Free, friendly and forward moving countries are not only our best markets, our best sources of supply for the mutual benefit of all of us, but are essential to the maintenance of our way of life. As our experience with the Sino-Soviet bloc demonstrates, freedom of trade, commerce and private competition are incompatible with Communist ideology.

As long as these three major facts of international life face us, the United States will have to have, in its own interests, a mutual security program of some kind and of substantial magnitude. No doubt there will be changes in direction and emphasis, and in character and composition, as the facts of international conditions require, and the U.S. interests demand.

The biggest single cost element in our Mutual Security Program today is that involved in the maintenance of the extensive military strength of the free world -- the strength needed to deal with the first fact of international life -- the threat of overt Communist aggression. We undertake to provide military assistance to deter this threat for exactly the same reason that we have our own domestic defense program -- to help build up and maintain essential defensive strength. And let me emphasize that we are only helping to maintain the military strength of our allies. Our allies contribute over \$6.00 to our mutual defense for every dollar of military assistance the United States provides to them. I am no military man, but let me quote the President of the United States, who certainly has a reputation in the military field. Here is what he said to the Congress in submitting last year's Mutual Security Program:

These two requests, one for our own defense forces, the other for our share in supporting the collective system,

are but two elements in a single defense effort. Each is essential in the plans of the Joint Chiefs of Staff for our national security. Each is recommended to you by the same Joint Chiefs, the same Secretary of Defense, and the same Commander-in-Chief.

Dollar for dollar our military expenditures for the Mutual Security Program, after we have once achieved a reasonable military posture for ourselves, will buy more security than far greater additional expenditures for our own forces.

Some of our allies, particularly our NATO partners, have made rapid economic progress in the last decade. Not only are they in a position to reduce the dollar discrimination to which I referred earlier, but they are in a position to and are indeed carrying more of the burden of our mutual defense.

But our military allies are not limited to the advanced countries of Western Europe, nor is the military threat limited to this area. Our allies in the Far East and Asia -- Korea, Nationalist China, Pakistan, and Turkey, for example -- are not capable of maintaining the military establishments that are needed in our mutual interest, and military assistance from the United States must be provided.

Korea and Nationalist China have the fourth and fifth largest armies in the world, exceeded only by the armies of Red China, the USSR, and the United States. As long as the military threat continues, I can see no possibility of the United States' discontinuing some military assistance to these countries. We can hope that it will become less as time passes. But we must be realistic, and the cost of modern armies is going up and not down.

In addition to direct military assistance, we are providing a dozen of our allies with economic assistance to help them to maintain these same military establishments and hopefully some modest economic growth. U.S. military assistance is limited to materiel and training. There are other costs to supporting military establishments -- troop pay, subsistence, and so on. These costs for such countries as Korea, Nationalist China, Pakistan, Turkey, Greece and Vietnam are larger than can be met from their own resources. So in twelve countries, in addition to the provision of direct military equipment, the United States is also providing modest economic resources to help the country carry the burden of the military establishments which are needed for our protection as well as theirs.

We have a vital interest in the economic progress of these countries in addition to our military interest in their defense establishment. If, with our help, these countries can gradually increase their rate of economic growth, thus eventually taking on more of the cost of carrying their own military establishment, then we can indeed look forward to the time when this component of the Mutual Security Program can be reduced and, hopefully, eliminated.

These two components of the Mutual Security Program -- Military Assistance for our Allies, and Defense Support Economic Aid for twelve of them -- make up almost two thirds of the Mutual Security Program appropriations for this year -- over \$2 billion out of a total of \$3.2 billion.

I now turn again to the second international fact of life -- the demand for progress in that vast area of the world characterized as "underdeveloped," and the vital importance to the United States that this progress be made under political and economic conditions which are compatible with those of the United States. Perhaps we can hope that Soviet leadership, as Secretary Herter recently said, "is reaching a conclusion similar to our own -- that unless the course of events is changed and changed soon, both sides face unacceptable risks of general nuclear war, which would approximate mutual suicide." But even if, in fact, this turns out to be the case there still will be no basis for relaxing our efforts in the non-military field. Indeed, in view of the growing economic strength of the Soviet Union, we will need to redouble, not relax our efforts. Mr. Khrushchev still makes no bones about his ultimate aims. They are the same as ever, even though the means perhaps will be different.

So, within the framework of Mutual Security we must be concerned with development as we are concerned with defense. Most of the balance of the Mutual Security Appropriation, the remaining one third, is used to help the underdeveloped areas of the world to develop both their human resources and their physical resources. It is my personal conviction that lack of trained human resources is more likely to inhibit economic, political, and social progress than the lack of physical resources.

An utterly essential prerequisite to development in this day and age is literacy. Yet in underdeveloped areas of the world as a whole, the literacy rate is less than 25 per cent. In addition to basic literacy, economic progress is dependent upon an adequate supply of trained manpower all the way from skilled workmen through private and public managers to nuclear scientists. By and large these trained human resources are either woefully inadequate or missing entirely.

One component of the Mutual Security Program is devoted to helping train these human resources. This is our Technical Cooperation, frequently called Point IV, Program. Today we have some 3,500 American technicians and consultants abroad helping and advising in agriculture, industry, public administration, health, education, and transportation, while annually we are providing training in the United States or other more developed countries, for some 8,000 nationals of the less developed parts of the world, in the same broad fields of human knowledge and endeavor.

We are not alone in this activity. The United Nations Technical Assistance Program is operating in this field, as are many other more developed countries in bilateral programs of their own, along with many American foundations and religious groups.

In the field of higher education, we in ICA have been calling more



and more upon American universities to provide help and guidance in the establishment of similar institutions overseas. As of today, we have 90 contracts with 53 American universities for help in 33 countries.

But the need is enormous and education, whether narrowly or broadly defined, takes time -- it takes a great deal of time. I am convinced that, no matter what progress may be made in our efforts to find a solid basis for co-existing with international communism, we will find it in our very direct interest to continue for the foreseeable future the Technical Assistance -- Point IV -- component of our Mutual Security Program.

The second component on the development side of our Mutual Security ledger is help in providing the physical resources needed for economic development. Currently these resources are provided largely through the Development Loan Fund, first authorized by the Congress about three years ago. This Fund is authorized to make resources available on a long-term repayment basis, in local currency if the situation requires, for sound development projects for which no other reasonable source of financing is available.

The Development Loan Fund is not the only, indeed not even the major, source of capital resources for economic development. Others include the International Bank for Reconstruction and Development, the Export-Import Bank of the United States, resources from other more developed countries, particularly those in Western Europe and over the horizon, an Inter-American Bank to help meet the needs of our Latin American friends, and the International Development Association. Nevertheless, even with all these potential resources in sight, the economic progress of vast areas of the world is inadequate to meet the challenge of the times or explicitly the security interests of the United States.

There is a considerable body of opinion in the United States that the U.S. contribution to this development must be sharply increased. One recent study prepared by the Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University, at the request of the Committee on Foreign Relations of the United States Senate, proposes that the United States Government for a ten-year period, starting in the fiscal year 1961, devote one fourth of its additional production each year over and above present levels of assistance to the economic development of less developed areas. In monetary terms, this would contemplate something in the order of an additional \$4 billion worth of assistance immediately and, as our own production grows during the decade, \$6 or \$8 billion a year a decade from now.

However, I am convinced, for the reasons elaborated earlier, that through one means or another we will need to continue for some time to contribute substantial resources to economic development in the less developed areas of the world. Much of this assistance cannot be on standard and traditional terms of repayment. Some of it should be provided initially as an outright grant and some more should involve flexible repayment provisions which permit the discharge of the obligation in local currency rather than convertible foreign exchange.

Let me remind this audience that in the early years of the United States, indeed through much if not all of the nineteenth century, this country relied heavily for its economic development on capital resources from abroad. Even today, a major midwestern railroad - the North-western -- runs on the left rather than the right, a heritage of its British origin. But, some will say, these investments were made on a business basis by private investors. True, but many of the enterprises defaulted on the bonds and thus, in effect, the project became a gift to the country.

One alternative proposal not infrequently advanced is that the United States Government, and thus the American taxpayer, should get out of the business of helping economic development overseas and permit, indeed encourage, American private investment to do the job. Nothing would please me better, but the possibilities must be looked at in perspective. The great underdeveloped areas of the world are the Arc of Asia and Africa. I am sure it will surprise you to know, as it certainly surprised me, that U.S. private investment, exclusive of investments in oil, in all of Africa, in all the Near East, and in all of South Asia and the Far East has amounted to less than \$60 million a year during the past five years. The total for this vast area is less than the annual budget of Montgomery County, Maryland, where I live.

In saying this I have no intention of being critical of the American private investor. He wants reasonable security for and reasonable returns on his investment. Everyone in this audience could think of many countries in which he would be not only hesitant but completely unwilling to make any investments. Yet, these countries are very likely to be the countries in which, from the point of view of the interest of all Americans, economic development is the most vital.

The U.S. Government is working hard at its job to make the climate overseas attractive to American private investors, through Treaties of Friendship, Commerce and Navigation, Tax Treaties, and the like. We in ICA have been offering, for ten years, for a modest fee to guarantee the American private investor against losses from either expropriation or inconvertibility. More recently, the Congress has extended this coverage to include damage resulting from war. The past year or so our coverage expanded sharply and now amounts to \$432 million. Much of this guarantee coverage was, however, in the more advanced countries. During the past session, the Congress limited this guarantee authority, effective January 1, 1960, to underdeveloped countries.

We are most anxious to have private investment take on more of the responsibility. In addition to our Investment Guarantee Program, we have established a senior officer with staff to devote his attention exclusively to the job of encouraging and facilitating American and other foreign private investment in underdeveloped areas of the world.

We believe, also, that the countries of Western Europe and now perhaps Japan can, both bilaterally and multilaterally, contribute more to this economic development. It seems clear to us, too, that the contribution of other developed countries must also include a larger



component of non-commercial grants and loans and it is for this reason that the United States recently proposed the formation of the International Development Association which, under the expert management of the most successful International Bank for Reconstruction and Development, can help provide more of the non-commercial requirements for development.

Now before closing I should like to turn briefly to one other aspect of the Mutual Security Program, namely, its administration. The Mutual Security Program seems to generate, for reasons not wholly clear to me, more than the usual number of charges of poor administration. Of course we make mistakes. The only person who never makes a mistake is the one who never makes a decision.

The International Cooperation Administration is helping to carry out more than 1,000 projects every year, scattered in sixty countries, where working conditions, local standards of conduct, of managerial capacity, and of business experience are completely different from those existing in the United States. Despite these additional handicaps, I am wholly satisfied that our batting average is very high. We have a loyal, competent, devoted staff who take pride in getting things done well under conditions which would, I can assure you, baffle and frustrate many of us. But to repeat, we do make mistakes and I can have no legitimate complaint when these mistakes are reported fully to the American public. Obviously, the taxpayer is entitled to this knowledge. I could wish that the successes were as widely publicized as are our mistakes, but perhaps this is too much to hope.

About two years ago we devoted the time and effort necessary to investigate and report on a list compiled by the House Foreign Affairs Committee of charges which at that time were being commonly made against the Mutual Security Program, including allegations that we were giving iceboxes to Eskimoes and dress suits to Greek undertakers. The Committee listed some 96 of these charges. Some of these, like the two I mentioned, were pure fiction. Eight did not apply to the Mutual Security Program at all; some twenty were errors in fact; over one half were misrepresentations or differences in judgment. Not one represented an error or mistake not corrected. I have here in my hand Part 6 of the Hearings before that Committee. The list of questions and the responses thereto occupy 55 printed pages. How many of you are aware, I wonder, that such a list had been compiled, analyzed and made publicly available?

There is in Wisconsin, I believe, an organization which around the turn of the year annually makes awards for the tallest "tall story" of that year. I am seriously considering entering in this contest some of the fabrications dealing with the Mutual Security Program. I feel confident that one or more of them would win the award hands down. The regular entries in the competition are submitted in the spirit of good clean fun and are accepted and understood for what they are. No harm is done. Unfortunately, incorrect reporting, or even worse, pure fabrications on the Mutual Security Program could be seriously detrimental to the security of the United States.

Now to return to the main theme. In summary the major components

of the current Mutual Security Program or some alternative thereto will in my opinion have to continue in some magnitude for the foreseeable future. This program does cost money -- does require the U.S. resources that might otherwise be used for different purposes, but in our concentration on costs we have many times, I fear, lost sight of value. The real question about the Mutual Security Program is not, "What does it cost?", but "What is it worth?" Value and price are not the same; nor is a thing automatically good because it is cheap, and bad because it is expensive.

What is it worth to the United States that the balance of power for peace remains with the free world and has not been moved to the Communists' side of the scales? What is it worth to the United States to have strong and willing partners for defense? What is it worth to the United States to have strong trading partners able to stand on their own feet and pay their own way? What is it worth to the United States to have prevented economic and perhaps political collapse in Western Europe and in countries like Iran, Turkey, Korea, Vietnam, Taiwan, the Philippines, and Pakistan? What is it worth to the United States that most of the developing nations turn first toward the West when they look for outside help in developing their resources and their institutions? What is it worth to this country that there are being created, by and large, whole societies whose institutions of government and business are compatible with our own? What is it worth to the United States that we do not have to go it alone and do not have to incur increased taxes and draft calls to supply U.S. armed forces equal to free world totals?

These are the kinds of questions we should be asking ourselves and we should try to find out what part the Mutual Security Program has in the answers. We should go further. In this era of change, we should ask if there are available better or less costly alternatives for achieving the goals we have set ourselves. Even should the need for defense disappear completely there will still be need for development programs for years to come. We should have an interest in these programs even should there be no competition from international communism. In the years ahead, I am convinced that the economic and technical parts of the Mutual Security Program will become even more important than they have been up until now.

## **THE MILITARY SECURITY PROGRAM -- A VITAL PART OF OUR DEFENSE**

William H. Draper, Jr.

It is indeed an honor and a pleasure to discuss our Mutual Security and Military Assistance Program today before the Institute on United States Foreign Aid. There is no subject more important to the future of our country.

The world's history has been marked from time to time by great national revolutions which have had tremendous influence beyond the borders of the country concerned. Some have been political, some social, some military.

Nearly two centuries ago our own Revolution gave inspiration to all mankind by insisting that all men are created free and equal, and by demonstrating that principle in successfully ending foreign domination of the American colonies.

Later, the French Revolution raised the tricolor and redefined the status of all individuals and all social groups in France with the battle cry, "Liberty, Fraternity, Equality."

So in the new world, and later in the old, the torch of freedom was lighted. The millions in many countries looked to it as their own hope for the future.

Today, two separate revolutions are sweeping great areas of the world. Just as before, these revolutions of today do not stop at national borders, but are bringing questions and hopes and fears to millions everywhere. Each of these revolutions is posing threats to our own well being, our way of life, and our security. One of them is attempting to impose the very foreign domination against which we fought our own revolution. Our survival as a nation may even be in the balance.

The Communist revolution, starting forty-odd years ago with only a handful of zealots under Lenin, Trotsky and Stalin, now controls nations with nearly a billion people, one third of the earth's population. Communism has never hidden its design to dominate the world. Rather, it has shouted its provocative intent from the housetops. I can do no better than to quote again Lenin's words: "First we will take Eastern Europe; next the mass of Asia; and finally, we will encircle the last bastion of capitalism, the United States. We shall not have to attack it, it will fall like over-ripe fruit into our hands." We cannot deny that his prophecy has so far been largely correct. Mr. Khrushchev's more recent taunt, "We will bury you," however he may try now to explain it, clearly emphasizes the same domineering intent.

The other contemporary revolution with which our foreign policy must deal fortunately is not motivated by these aggressive and dangerous ambitions. But it also poses serious problems for our future. About a billion people live in the less developed nations of Asia, Africa and Latin America. Two thirds of these inhabit a score of countries which have gained their political freedom since the end of World War II, only fourteen years ago.

Intoxicated by the wine of newly won political independence, responding to the exhortations of native revolutionaries lately become their governmental leaders, and spurred by the widespread knowledge of much higher standards of living in other countries, the masses in these less developed lands are in a state of ferment, seeking a better life, demanding greater opportunity and improved living conditions for themselves and their children.

These nations are generally lacking in the education, the training in industrial and governmental techniques, the organizational experience, the capital, and the community traditions necessary for rapid industrial and agricultural growth. They forget that the booming prosperity of the Western industrialized countries, and even of Japan, is based on many decades of slow political and economic development and on the investment of huge amounts of national savings over the years.

And we here in America are equally prone to forget that we ourselves cannot expect indefinitely to live in peace and prosperity, entirely aside from the Communist menace, when so many hundreds of millions live in poverty. It is our problem as well as theirs.

The recent internal economic achievements of Russia and more especially the exaggerated reports from Communist China have brought these problems of the underdeveloped countries sharply into focus. China and Russia are pursuing a totalitarian and brutal method of achieving rapid economic growth at a tragically high cost in human life and in loss of freedom. Since this cost is generally not clearly understood, the Communist system seems to offer to many an alternative to the present slower rate of economic progress generally taking place in the undeveloped countries.

We may now view the broad outlines of the world picture in which each of us must consider what policies will best serve our country's future security. Three elements stand out in vivid colors.

One, the industrialized nations of the free world, roughly a half billion people, for whom rapid recovery from the ravages of war has brought greater prosperity and individual opportunity than ever before, but whose way of life has been seriously challenged.

Two, the Communist bloc, brash, confident, and on the march toward what they foresee as world domination.

And three, the uncommitted billion, still underdeveloped, mostly free politically but mostly burdened by ignorance and poverty, groping for a better life.

The industrialized nations of the West, banded together in defensive military alliances against the aggressive thrust of Communism, are daily in contact with Moscow and Peiping for the minds and hearts of this third group -- the less fortunate billion who are trying desperately to improve their lot but who are hoping still to retain their national and individual freedom.

Casting its shadow over all three of these great groups is the ominous threat posed by man's recent development of weapons which, for the first time in history, could encompass his own destruction. I have heard it said that setting off only one of today's massive hydrogen bombs would release more explosive energy than was involved in the entire Second World War.

It is against this background that President Eisenhower invited Mr. Khrushchev to the United States. It is in this context that he has already started out on his travels as a modern Sir Galahad seeking the Holy Grail of peace. He is now consulting with other leaders of the free world, and the leaders of neutral nations such as Afghanistan and India. Then, next spring, he will go on to Moscow. Summit meetings should follow in due course. There the world and its future will be the stakes.

The President of the United States bears a heavy responsibility indeed. We can only hope, in this fateful moment of history, that his strength, his judgment and his undoubted goodwill will have all possible success. All of us, as citizens of a country in which free and open discussion finally determines the national opinion and the national policy, have our part in this responsibility. I respectfully suggest that each of you put yourself mentally in the position of our President today as he reviews the alternatives that face our country and the free world, and try to evaluate in your own way what course of action you believe would best preserve the heritage which we all hold so dear.

We must start with the fact that the President himself has taken the initiative by inviting the Russian leader here, and that he will certainly try to reach some kind of peaceful agreement with Communism, or at least to find a better modus vivendi than the openly declared state of cold war in which we have been living for so long. We should also recognize that so far nothing has been settled. Negotiations are still in their early stages.

Perhaps the undoubted desire for peace by the Russian people will prevail. Perhaps the often expressed Soviet intention to dominate the world will change. Perhaps the promises to increase the Russian standard of living will really substitute butter for guns.

Or perhaps the present Soviet smiles, which in spite of friendly words have so far offered no real change in fundamental positions, are only tactics such as those predicted and suggested by Lenin. We

do not know as yet. But we do know that strength alone is respected by those with whom we will soon be seriously negotiating, and that this would be the worst possible time in which to relax and to show weakness.

Since 1950, when the unprovoked attack on Korea made Communism's aggressive aims quite clear to all, the United States and its allies have poured out countless treasure to strengthen the ramparts of freedom, and to make another great military adventure too costly to risk.

And despite all the feints and thrusts from Communism's camp during the past decade, we have succeeded in our basic aim. So far we have prevented another world war. We must not be swayed from this objective, nor forget its importance. For, should such a catastrophe come, life on this planet as we know it today would no longer exist. The cost is nothing, as compared with the possible alternatives of national devastation or political defeat.

We must not follow those false prophets who now say the Russians do not want war, who say even before any settlement is reached that we no longer need to continue to build our strength, who would drastically reduce our Mutual Assistance Program, who ask for lower taxes and less effort.

Now, more than ever, we must remain strong -- to maintain the peace and to avoid being outmaneuvered in the negotiations that lie ahead. Our country and its leadership are being weighed in the balance. They must not be found wanting.

Our national military strategy includes two basic concepts, the shield and the sword. The shield, to be effective, requires the maintenance of allied forces in sufficient strength at all points of contact with the Communist world to prevent or, if necessary, to fend off any local aggression.

The other vital element in our military strategy, the sword, is the over-all deterrent -- our atomic capacity to destroy completely the aggressor should a full scale attack actually occur -- which is intended, since the cost to him would be too great, to prevent his launching any such attack. This power of massive retaliation with our strategic bombers and our long-range missiles, however, is perhaps approaching a situation of nuclear stalemate as Russian missiles gradually attain the capacity likewise to threaten our destruction. This latter development will also raise the vital question whether we can still strike back effectively after absorbing an attack directed primarily at our own nuclear installations.

Whatever the implications of this growing ability of the two great world powers to destroy each other, and they are many, it should be crystal clear to all of us that under such conditions, the far-flung perimeter of the free world must be kept strong or it will certainly be nibbled away bit by bit.

In the years that have followed the open military attack on Korea,



our own defense appropriations have tripled. Our Western European allies have greatly increased their own defense spending and our Mutual Assistance Program has added its vital part to the free world's military strength. The question we must ask ourselves is whether this is enough to prevent another attack, really to keep the peace.

A year ago, President Eisenhower decided that after eight years' experience with the Mutual Security Program there should be an over-all evaluation of our military assistance policy, to weigh its results, its shortcomings and its future requirements. He appointed a Committee of ten private citizens to undertake a completely independent, objective and non-partisan analysis of the military assistance program and to consider the relative emphasis that should be placed on military and on economic aid.

The Committee, of which I had the honor to be chairman, included three retired military men, General Gruenther, Admiral Radford, and General McNarney, well known by reputation to all of you. The seven civilians included two former budget directors, one a Republican, Joseph Dodge, and one a Democrat, James Webb -- certainly not known as spendthrifts. John McCloy, head of the Chase-Manhattan Bank and former High Commissioner of Germany, Dillon Anderson, who had been Assistant to the President for National Security Affairs, Marx Leva, the former Assistant Secretary of Defense, and George McGhee, formerly Assistant Secretary of State and Ambassador to Turkey, were the other members. This bi-partisan Committee and its staff studied the problem for nine months. Through sub-committees we visited all areas and most countries where assistance is being given. We discussed the problem with high officials of the State and Defense Departments, with our ambassadors, with the Joint Chiefs of Staff, and with our other military leaders throughout the world. All secret documents bearing on the problem were made available to us.

Our Committee made four reports to the President, all of them unanimous. We came to the conclusion that the Communist threat is greater than ever, and that Communist military, political and economic capabilities are still expanding. We expressed the view that the Mutual Security Program is a sound concept and an essential tool of our foreign and military policy, and that both our own contribution and that of our European allies to mutual security should be increased and not reduced.

We found that the free world's far-flung defense perimeter is manned jointly by allied and United States forces and extends through Middle Europe, the Middle East, and around the rim of Asia to the Northern Pacific, and that the weapons for the allied forces defending this perimeter have very largely been furnished by our Military Assistance Program. It is a very wide area important to our security. The nations of this area, without our help, cannot defend it. Together we do have the strength to do so.

We pointed out that actual deliveries of weapons, planes, and other military equipment under this program have averaged \$2.4 billion during the past fiscal year. These large deliveries were made possible because

the much lower appropriations in recent years have been supplemented each year from the reservoir or pipeline of appropriated but unexpended funds largely built up during the Korean War. During the past year, about \$900 million came from this pipeline of unexpended funds.

But this \$8 billion pipeline has now been largely exhausted. It is now only about large enough to cover the necessary lead time for today's modern weapons to be ordered and fabricated.

We unanimously concluded from our studies, our travels and our discussions that annual deliveries of at least \$2 billion a year will be needed during the next few years to maintain required military strength even if, as we also recommended, our industrialized allies increase their own defense contribution substantially. Continuance of the present lower level of appropriations for military assistance, however, would soon mean a drastic decline in actual deliveries of weapons by at least 40 per cent.

We were all convinced that this would involve an unacceptable risk to the free world and to the United States itself. We recommended that appropriations for the fiscal year 1960 be increased by several hundred millions to approximately \$2 billion dollars, and that this level be maintained as an integral part of our defense. These were our unanimous conclusions with respect to military assistance.

We also were persuaded that the Communist economic and political threat and capabilities are expanding and must be countered by political action and by our economic assistance in the less developed areas.

With prosperity restored in Western Europe and in Japan, we also considered that the other industrialized nations of the free world should be asked to make increasing contributions to military defense and to the international effort to raise the economic level in the less fortunate nations of the world.

Nothing has happened since August, when these recommendations for increased military and economic assistance were made to President Eisenhower which, in my judgment, changes the validity or importance of our recommendations.

As I have already pointed out, the impending negotiations with the Soviet leadership emphasize the vital importance of maintaining and buttressing the free world's military strength until agreement is actually reached for some form of properly controlled political and military disarmament. When this will come, and whether it comes at all, only the future can tell. Until then, our guard must be up and our appropriations for defense and for mutual assistance must be adequate.

Your other speaker this morning -- a most estimable gentleman and businessman -- heads a committee which asks you to embrace the Fortress America concept, the idea that America's safety lies in isolation, lies in a hurried retreat back into our own hemisphere.

This committee boldly tells us to take our troops out of Europe, to cut the aid program in half, to end it in three years.



They would coldbloodedly let our friends and allies fend for themselves against the Communist menace.

The Kremlin would be overjoyed, exultant, and would soon be on the march. In fact, the Kremlin, which has demanded that our forces leave Taiwan and the Western Pacific and that our troops be pulled out of Berlin, would warmly endorse every recommendation made by this other committee.

But by posing starkly for you this policy of hurried retreat, this isolationist committee has performed a real public service. It has highlighted dramatically the two alternatives before us:

Do we, the richest and most powerful nation in the world, help to defend the free world and thus defend ourselves? Or do we default our responsibility, default the leadership we have inherited, abandon the rest of the world to Communist conquest and in effect accept worldwide defeat?

Just suppose that this isolationist committee's recommendations were accepted, and it were announced that all foreign military and economic assistance were to be ended in three years.

How many countries of the free world would still remain free three years from now? And just what do you think our own situation would be right here in America in 1962?

Let me quote the words of Ambassador Tran Van Chuong of Vietnam, whose country lives daily under the threat of Communist attack:

We have lulled ourselves into half-consciousness and half action by calling it the "cold war," but during these last fourteen years this cold war has almost always been hot for some people or other of the free world.

It was hot for the Chinese mainland for four years, from 1945 to 1949 during the Chinese civil war.

It was hot for the Vietnamese and the French for eight years, during the Indochinese War.

It was hot for Korea, for the United Nations and for the United States itself for three years, during the Korean War.

It was hot for Hungary in 1956.

It was hot for Quemoy, Matsu and Nationalist China yesterday.

It is hot for Tibet now.

It may be hot for all of us tomorrow.

To avoid that possibility and to keep the peace, we must maintain and support the principle of collective security to which we and our allies are dedicated. We must strengthen the Military Assistance Program.

It is not a sectional program; it is not a partisan program. It is a program on which all Americans can unite in the interest of our own security and that of the entire free world.

The essential and basic question as I see it is whether we as a nation have the will to mobilize our undoubted strength in the great contest in which Khrushchev has so clearly engaged us. We can afford what we need to survive, for our defense and for military and economic assistance.

What we must have as a people are the understanding and the fortitude. Without these our destiny is in doubt. We must ask ourselves, "What is the price of freedom?" Then we must pay it, fully and gladly.

We must support our President.

We must stand shoulder to shoulder.

We must keep the faith.

## **THE IMPACT OF OUR FOREIGN AID AND GIVE-AWAY PROGRAM ON THE AMERICAN ECONOMY**

Walter Harnischfeger

Permit me to offer my heartfelt congratulations to Marquette University for arranging this auspicious Foreign Aid Conference. As a native of Milwaukee and as Board Chairman of a 75-year old manufacturing company whose products go to the far corners of the world from Milwaukee and from subsidiary plants to play an important role in the progress and development of many foreign countries, I am gratified to share in our community's contribution to the study of this vital subject.

This is a most timely gathering. In less than four weeks, the Congress will be engaged in its perennial controversy over Foreign Aid, a program which already has cost the American taxpayer more than \$80 billion, not including American generosity -- both Government and non-Government -- in countless other forms for generations.

In January of this year, the White House requested another staggering foreign aid appropriation of \$3.9 billion, an amount approximating its usual annual requests for the "Giveaway" program since the Marshall Plan was instituted as a temporary help-Europe device soon after World War II. The \$3.9 billion was cut by an aroused Congress to \$3.2 billion after the greatest fight in foreign aid history. Because of a countrywide taxpayers' revolt, the President avoided sending to Congress an additional \$400 million request made by the Draper Committee.

In January of 1960, Congress will assemble in a vastly different and improved atmosphere. There have been numerous developments during recent weeks which prove conclusively that there has been a tremendous "breakthrough" in national thinking concerning the perpetuation of the "Giveaway" program in its present form.

1. On September 28, both President Eisenhower and Secretary of the Treasury Anderson told the annual meeting of the World Bank, the International Monetary Fund and the International Finance Corporation in Washington that other industrialized countries must help bear the Foreign Aid burden and must end their discrimination against imports of American goods.

2. A "Buy American" policy has been adopted in the administration of the Development Loan Fund.

3. The Director of the Budget, Maurice Stans, disclosed that Government spending was gaining a momentum threatening to wreck our economy, with our present public debt and future commitments now reaching "the almost incredible total of about \$750 billion -- three fourths of a trillion dollars" -- apart from annual operating expenses.

The Citizens Foreign Aid Committee, of which I have the honor to be national chairman, is dedicated to a program of arousing the American people to the peril of continued foreign aid. As the only national organization devoted exclusively to opposing this program, we made numerous appearances before Senate and House Committees earlier this year. Formed as recently as last March, our Committee is conducting an active campaign for the end of the foreign aid program in three years.

Our Committee speaks from a wealth of experience. Various of our members have devoted a lifetime to successful foreign trade and foreign business activities -- men like Sterling Morton of Morton Salt Company, General Robert E. Wood of Sears - Roebuck, Colonel Willard Rockwell of Rockwell Manufacturing Company, former Ambassador James Kemper of Kemper Insurance Companies, the late Henning Prentis of Armstrong Cork, Howard Pew of the Sun Oil Company, former Ambassador Spruille Braden, and others. We have four distinguished West Pointers with the rank of General on our Committee.

Those who would label such men as isolationists with extensive overseas trade interests and investments are merely resorting to name calling rather than giving honest answers to questions the foreign aid problem presents.

I, personally, have seen Europe on various occasions since before World War I. In fact, my business interests have taken me throughout the world. As one of the first civilians to visit Europe after World War II, under Army orders to submit a report to the United States Senate, I personally saw the results of unsound fiscal policies resulting in inflation, government upheaval, and misery.

I returned only last week from another extensive trip in various parts of Western Europe. I can add my voice to that of countless other businessmen, journalists, and others to the fact that Western Europe not only has recovered but is experiencing a tremendous boom in many places. Our Committee urgently and insistently wants to know why American taxpayer money is continuing to flood Western Europe, to name only one area.

Upon formation last March, our Committee recognized certain basic facts. We recognized that since 1932 when President Roosevelt called in the gold we have gradually been giving up our economic freedoms. Meanwhile, both parties were far along with spending habits that started with so-called domestic depression relief projects and grew to enormous global and seemingly endless giveaway programs -- all supported by the American taxpayer. No less a Government spokesman than General Draper was quoted as saying that Uncle Sam might have to continue the foreign aid program for one hundred years.

At the outset, our Committee outlined a set of fundamental principles that we felt were sound and to the interest of our country as conceived under our Constitution. As soon as we had developed our initial report, which was approved by every member of the Committee, it was sent to all members of the Executive Department of our Government, to the

Congress and to thousands of citizens who are leaders in forming public opinion. We also organized a public relations program for press conferences and radio.

On the occasion of my appearance before the Foreign Affairs Committee of the House of Representatives, the Administration made public a 65-page report prepared by the Departments of Government which are involved in foreign aid. It purported to be an answer in detail to our First Report. Unfortunately, many of the facts referred to in the alleged answer were so worded as to become distorted.

We proceeded to rebut the Administration's answer item by item in our Second Report. In the meantime, our research personnel developed information for the use of the various members of our Committee who were regularly appearing before Congressional Committees. For the first time since the inception of foreign aid, a group of citizens outwardly and steadfastly opposed our foreign aid policy before Congress. The total testimony given by members of our Committee before Congressional Committees covered seven and one half hours.

In addition to this activity, members of our Committee conveyed our message in speeches from the Atlantic to the Pacific to the Gulf of Mexico. Leading newspapers, especially in Washington, D.C., have carried our ads.

Time will not permit me to refer in detail to the contents of our various reports, which are available to you upon request. I am here to pass on to you in somewhat of a concentrated form the alarming facts that have prompted our Committee at great personal sacrifice of its members to alert our fellow Americans to the serious consequences of our present foreign aid program.

Our studies have disclosed wasteful foreign spending on a global basis. In the course of this spending, under the guise of economic assistance and military aid, there has been a serious impairment of our own economy and a weakening of the defense of America -- the last bastion of the Free World.

One of the most serious adverse effects of foreign aids is the flight of gold -- the devaluation of the dollar.

Last year, we exported merchandise totalling \$16,207,000,000. Half of what we ship abroad is giveaway or goes to pay for giveaway. But our exports were also needed to support the private foreign expenditures of American business, of travel abroad, and to pay for the \$12,944,000,000 of goods we imported. To balance accounts, therefore, foreigners took, according to the Department of Commerce studies, \$3-1/2 billion in gold and liquid dollar balances. It is estimated that the loss of gold in the year ahead will be at least \$4 billion. Alfred Hayes, President of the Federal Reserve Bank of New York, in his recent speech before the National Foreign Trade Council, warned that no objective observer would argue that we can face with composure anything like a \$4 billion adverse balance continuing for an indefinite period.

This process of drawing down dollars in gold or using them to accumulate investments in this country -- bank balances and stock market securities -- has gone on since the beginning of the Marshall Plan. In the past ten years, over \$5 billion of the gold supply has been drawn down, or 20 per cent of the total, and the gold reserves are today less than they were at the beginning of World War II.

Today, of our total gold stock of less than \$20 billion, something like \$18-1/2 billion is subject to call by foreigners. Anyone who recalls the 1929 panic knows that it doesn't take much to tip the scales of public confidence and start a run on the bank. The point I would like to make is this: The U.S. dollar today supports the whole American Economy, now running at twice the 1939 rate with less than the 1939 backing in gold. The U.S. dollar also supports half of the world's trade and provides half the backing of the Free World's currencies. This is too heavy a burden to put on our diminishing stock of gold.

Foreign aid spending is a major contribution to growing inflation -- another menace facing America today. Inflation initially brings a business boom. Everybody is elated, prices are going up and everybody is making profits; then suddenly, collapse, stagnation, misery, hunger, breadlines, factories idle while prices continue to rise. Unless this situation is brought under control, it is followed by political chaos and dictatorship. The only solution to the problem is a balanced budget and a sound fiscal policy. The beginning of a sound fiscal policy is to stop the wasteful extravagant and useless spending of foreign aid.

To date, we have spent some \$80 billion in foreign aid. The total foreign aid program which has been under consideration for the fiscal year 1960 amounts to the fantastic total of \$17.5 billion.

Of course, not all of the \$17.5 billion will be made available. Nevertheless, indications are that approximately \$14.85 billion will be made available for foreign aid. The entire four year Marshall Plan cost \$13 billion and was enacted immediately after World War II at the time Europe was prostrate and in the great international crisis. It was to be a one time program and was not to be perpetuated. Yet, today, over 20 per cent of the personal income tax dollars of every American is hypothecated for foreign aid.

The dollars that are provided for foreign aid are so astronomical that an efficient administration of the program is impossible. It also results in setting up a planned economy in nearly every country of the world. It breeds State trading which in turn breaks down commerce, American private investments, and free enterprise, and it brings about international Socialism, which is the first step to Communism.

Many of the loans that are being set up are repayable in local soft currencies which compete with hard currency and break down American investments abroad. Many loan commitments have been made in foreign countries to build up basic industry without consideration to the importance of building secondary industries and developing distribution. It takes much experience and many years to develop an efficient distribution organization, even in highly developed countries.



It is unrealistic to build up artificially underdeveloped countries beyond the limitations of their internal resources and their ability to sustain them, and in turn subsidize them by American aid. American business possesses by far the largest know-how and experience to expand commerce and international trade on a self-liquidating basis with benefits to the American economy. Our Committee has recommended greater incentives for such industry to accomplish these results.

We have literally taken billions of our resources to provide our foreign competitors with the latest type facilities to strengthen their competitive effort. This effort is further strengthened by low wage scales. In Europe, labor cost to these competitors is one sixth of ours; it is one tenth of ours in the Far East. At the same time, we are advocating free tariffs. The result is that we are destroying one American industry after another, creating ghost towns and subsidizing unemployment through unemployment insurance at the taxpayer's expense.

The huge foreign giveaway program our country has indulged in on a most lavish basis since 1940 started with Lend Lease, war relief, international agencies. Foreign aid administration has been in a state of constant change and turmoil. The supervision has been poor and the records even today are often not available. The favorite method of preventing an investigation is for the Administration to term the pertinent records as classified information.

An army of 20,000 bureaucrats has been developed to administrate and mal-administrate the civilian tied into the army procurement. The heads of this organization are given unlimited time to appear before Congressional Committees and even to utilize friends for propaganda purposes to justify the perpetuation of these efforts.

In addition to spending billions on NATO, we have spread our armed forces and maintain overseas troops and naval installations at 73 faraway bases throughout the world. One emergency follows another, which in turn is used to frighten us into more spending.

The dollars spent abroad by the many spending agencies change hands many times. Many of them have enriched unscrupulous operators from here and abroad. However, they all ultimately return claims on the American economy and must be redeemed by the American taxpayer. Foreigners may exchange these dollars for American goods, land, residential and business buildings, stock shares and investments.

Part of foreign aid programs involves the Development Loan Fund. I should like to make several observations on this lending device. First, 90 per cent of the loans go to Governments instead of to private industry, and they serve to increase the tendencies to statism and socialism in those countries. Private enterprise is unable to compete with state enterprise which gets its capital at low rates of interest, which pays no taxes and which, in the case of these foreign loans, are under little obligation to repay. The result is that we encourage state capitalism and socialism and put a blanket over private enterprise.

Second, our effort is directed to building up integrated economies in the under-developed areas for which they are presently unprepared and which require years of preparation.

Third, in certain areas we have fostered a lush growth of industry in competition with American industry. Where wages are at a subsistence level and where costly fringe benefits are unknown, we have further reduced manufacturing costs by providing the most modern machinery and processes. The result is that foreign wares of every sort and description are now flowing into the American market at prices with which our industries cannot compete.

Our defense dollar represents 60 per cent of our total budget and is closely tied into our foreign aid expenditures. Members of our Committee who have had top assignments in military affairs and possess practical experience in global defense planning believe that this entire defense program should be re-evaluated.

Our Committee believes that our Strategic Air Command, SAC, is the true keeper of the peace and that the United States alone is providing the Free World with the greatest known war deterrent -- SAC -- so long as SAC is superior to the Red strategic striking force our deterrent is likely to remain effective, but SAC bombers are wearing out and our missile program lags.

The maintenance of overwhelming air/space/nuclear supremacy should be our Number One objective.

Our Committee believes that considerable savings can be effected by bringing home a substantial number of our troops and reducing our "hardwood handouts" to allies who can be neutralized.

We believe that industries and all our intercontinental bombers, together with their essential personnel, should be provided with adequate bunker protection against sneak nuclear attack. We believe this is a better investment than our present foreign aid program of wastefully scattering funds throughout the world.

We believe that it is unrealistic to assume that it will be possible to coordinate the military efforts of forty to sixty allies on short notice in an atomic war.

We believe that reluctant allies are worse than no allies; that people who are unwilling or reluctant to meet the cost of their own military establishments are questionable allies. We have, in support of this view, the experience in Korea.

Our Committee has made an extensive investigation of the total foreign aid and waste which has disclosed a tremendous amount of graft, corruption, maladministration and mismanagement. We have tabulated in detail many of these programs which have been brought to light at Congressional investigations.



In Iran, a total of a quarter billion dollars was involved in the loose, slipshod administration of an unbusinesslike program. In Pakistan, a great deal of waste in equipment as well as over-indulgence of administrators was reported by the Government Accounting Office. In Laos, the Committee on Government Operations found great conflict between the State Department and the Defense Department's decisions which brought about very substantial losses. In Vietnam, we set up a planned economy which was fantastic and entailed terrific expenditures without any relation to what this country could absorb. In Peru, the Country Director set up a sizeable livestock operation for himself, utilizing foreign aid. Controller General Joseph Campbell, in testifying before the House Appropriations Committee, said that investigations by his auditors showed a "pattern of loose, lax administration running throughout the entire foreign aid program." Korea, Thailand and Burma are other areas of extreme wasteful spending.

Our Committee is not unmindful of the fact that this huge unrealistic program was set up with the idea of fighting Communism. Certainly it is in order to analyze the results we have attained. In Europe, the Communistic element is strongest in the areas that have received the most financial foreign aid. Likewise in the Middle East, Communism has made substantial progress in spite of the millions which we have appropriated. According to the records, Communism has expanded in Indonesia, Thailand, and in the Far East. In Latin America, certainly our lavish gifts have not stopped insurrection in Bolivia, Venezuela, Cuba, Guatemala, Haiti and the Argentine.

The Communist expansion is accomplished by infiltration and then seizing the Government in power. Our billions wastefully spent on a global basis have not stopped this type of procedure. Even administration leaders stress the fact that the Communist menace is now greater than ever even though we have spent \$80 billion on foreign aid. Our best defense against Communism is a healthy internal economy.

The mutual Security Act of 1959 is one of the greatest pieces of pork-barrel legislation ever conceived. It is most unrealistic to assume that 6 per cent of the world population, even though we have many resources, can indefinitely support 94 per cent of the world population by a giveaway program, and if this is continued it can only lead to chaos and international bankruptcy.

Proponents of global, continuing and ever-expanding foreign aid, expanding as new countries continue to be born around the world, would have the American people believe that the free world would suddenly collapse if foreign aid is killed. This is simply not so. There are abundant channels in existence designed especially to assist private overseas investment under our private enterprise system that can be adequate to any development situation arising.

The complete return to private enterprise in the financing of the needs of free world nations would restore to beneficiary nations the integrity, respectability and responsibility lacking in Government-to-Government foreign aid programs.

Our Committee has not taken a negative approach to this involved problem. We have made a series of recommendations to liquidate the giveaway programs systematically and rationalize this program in order to put it on a business and self-liquidating basis. We made the following recommendations to Congress:

1. That our traditional general private charity and governmental grants to relieve disaster be continued; that we encourage the expansion of our private missionary efforts.

2. That in countries which we are morally obligated to defend and which are directly threatened with Red aggression, military assistance should be continued for the time being, but on a realistic basis.

3. That for our own survival and the survival of the Free World, the United States build and maintain overwhelming air, space and nuclear supremacy over that of the Soviet Union. This can be effected for less than is now being spent for defense and foreign aid merely by reducing the appropriations for our military surface forces which are no longer decisive, and by terminating foreign aid.

4. That foreign aid which directly or indirectly promotes Governments that are hostile to our Constitutional concepts of government be terminated immediately.

5. That we cease immediately using foreign aid to enable socialistic governments to finance government-owned industries that discourage private enterprise, support a basic principle of communism, and are a competitive threat to American industry.

6. That, so long as Governmental foreign aid is continued, the recipient should pay a part of the cost of the proposed project; that our aid should terminate when the conditions on which that request is based have been remedied; that private, technical, scientific and educational assistance be extended only to friendly peoples who seek our aid on a cash or loan basis. In any successful enterprise, experienced management is the principal ingredient. By virtue of the necessity to make a profit, business possesses many more men whose education has been directed towards results, towards economy and towards the development of self-liquidating projects. Every effort should be made to expand the experience of men employed by American business in its outposts, to reinsure private bank credits, to utilize engineers employed by American companies to develop programs without charge that are self-liquidating.

7. That greater encouragement be given to private capital as a substitute for government-financed programs. Foreign gifts stimulate socialism and communism. American foreign investments build up the standard of living, increase production, produce profits and taxes, and are self-liquidating.

8. That we endorse enactment of the Boggs Bill as soon as the gold flight is under control.

9. That soft and local currency loans, which represent an unsound practice, be abandoned.

10. That counterpart funds, which are impossible to administer effectively and are a political fester in foreign countries, be liquidated by sale on the best terms obtainable and all counterpart accounts be closed.

11. That until foreign aid is terminated, the Congress take steps properly to exercise close supervision and control over the manner in which all foreign aid funds are being spent; that aid during the tapering off process be handled by the Export-Import Bank.

12. Our Committee holds that the American people have the right to demand from the Administration well-defined objectives for the foreign aid program so that they can be evaluated in the light of our huge national debt and deficit spending.

As a result of all of our efforts during the past year, we believe that our Committee has been largely responsible for a reduction of \$1.2 billion in foreign aid requested by the Administration. It must, however, be taken into consideration that in the interim the World Bank has substantially increased its resources and also just recently appropriated one billion dollars for soft money loans throughout the world.

During the last two decades we have been gradually losing our freedom. Our Government is rapidly drifting from a capitalistic society to a socialistic government.

The one-world philosophy, plus our unsound fiscal policies, will result in pulling our standard of living down to the standard of the under developed countries.

Billions of dollars are voted by our Congress and are squandered on a global basis without adequate control and in areas where our people do not have the opportunity to observe the results. It is further questionable whether these appropriations are constitutional.

The forces involved in this international revolution are so great that no living individual can accurately appraise the results.

There is, however, a simple axiom that we should follow to avoid disaster and that is to keep the home bases strong and to maintain a sound fiscal policy and a sound dollar.

It is axiomatic when a family lives beyond its income that it results in bankruptcy, when a business gets into financial difficulty that a receiver is appointed, when a government spends more than its income and mortgages the future of several generations that this results in inflation and a breakdown of its social structure.

I believe we all recognize that we are living in 1959 when the world has shrunk by reason of modern aviation. The facts remain that we have

grown and prospered over many years by adhering to a constitutional form of government which has produced a nation of the highest standard of education, the greatest wealth per capital, the highest standard of living in the world, and a society of free men.

Under a Constitution, our Government is supposed to be the servant of the people rather than the people's being the servant of the Government.

There are many areas of government operation in which public scrutiny is necessary to eliminate waste and poor administration. The foreign aid program presents you with a real opportunity and challenge to bring about economy and efficiency in Government. You can help to rationalize this huge program by alerting your friends and the Congress to the need for eliminating foreign aid.

## THE ROLE OF FOREIGN ASSISTANCE IN INDIAN ECONOMIC DEVELOPMENT

Ambassador B. K. Nehru

I am greatly honored at having been invited to take part in this Institute on Foreign Aid. I welcome the opportunity to exchange views on so important a subject, to listen to some of the most eminent advocates and opponents of foreign aid programs in the United States and to try and explain, on the basis of experience in my own country, why I think that these programs should be continued and indeed greatly enhanced.

But before I come to the substance of my remarks, let me make it clear that I propose to concern myself here exclusively with foreign aid for economic development. The term "foreign aid" covers a multitude of activities, the only common bond among them being the transference from one government to another of certain amounts of money or goods and services. Perhaps the best method to illustrate the variety of activities covered by foreign aid programs in this country is to analyse the appropriations made by the United States Congress for this purpose in the fiscal year 1960. The total amount of money appropriated under the Mutual Security Program for the current year is \$3.2 billion. The analysis of this figure is as follows:

1. Direct military expenditure	\$ 1,300.0 million
2. Defense support	695.0 million
3. Special Assistance and Contingency	400.0 million
4. Technical Assistance Program	181.2 million
5. Development Loan Fund	550.0 million
6. Miscellaneous, including administration and relief agencies	91.5 million

Of the total foreign aid program of \$3.2 billion, as much as \$2 billion is thus devoted directly or indirectly to building up the military potential rather than the economic potential of foreign countries. Foreign aid for military purposes or to take care of the impact on poor economies of greatly enhanced military expenditure is almost entirely an internal matter for the United States, and I do not wish to comment on this aspect of American foreign aid. Given a certain decision as to foreign policy and a certain assessment of the international foreign, military and strategic situation, it is for the American people to decide whether or not the American defense perimeter should extend thousands of miles beyond the American mainland and whether the cost of such an extension should be debited, as was suggested some time ago in Congress, to the national defense budget or to the foreign aid program. My point simply is that this part of American foreign aid is not relevant to my purpose of assessing the significance and importance of foreign aid to the economic development of the less developed areas. A large part of the sums allocated for the special assistance and contingency funds as well

as most of miscellaneous assistance is also used for purposes allied to defense such as the landing of American troops in the Lebanon or the provision for Hungarian refugees or for meeting the cost of relief and rehabilitation; so that the Development Loan Fund and Technical Assistance programs are essentially the two major foreign aid programs for promoting economic development. The total defense-cum-political relief portion out of the foreign aid budget of \$3.2 billion is thus approximately \$2.4 to \$2.5 billion. There is thus a total of \$700 to \$800 million only left for the purpose of true development aid.

Apart from the Mutual Security Program, the United States sells surplus agricultural commodities to foreign countries against local currencies under the P. L. 480 program and the Export-Import Bank lends money abroad for financing American exports. While these two activities of the American Government greatly assist the development of the less developed countries such as mine, I think it will be readily agreed that the rationale for the P. L. 480 program and for the Export-Import Bank is somewhat different from that of other forms of government-to-government developmental aid. At any rate, much of the controversy that surrounds the foreign aid programs -- a controversy which centers on the justification for taxing the citizens of one country for the benefit of the citizens of another country -- does not apply to the P. L. 480 program or the Export-Import Bank. The area of controversy regarding foreign aid is, therefore, about the comparatively small sum of \$700 to \$800 million which is currently utilized by the United States to promote economic development abroad.

Are such expenditures justified? And if they are justified, is the present amount devoted to developmental aid adequate for the purpose aimed at? We cannot even begin to answer these questions without taking a brief look at the economic picture of the world in which we live. The remarkable fact about this world is that it is unfortunately divided very sharply between a small minority of industrially developed and rich countries on the one hand and a large majority of economically underdeveloped and poor countries on the other. During the last hundred years or so, science and technology have transformed the face of North America, Europe and Australasia where poverty and want are all but banished. But the millions in Asia, Africa, and Latin America have shared but little in this advance. The result is that today we have a situation in which these less developed regions, which account for two thirds of the population of the non-Communist world enjoy only one sixth of the total wealth outside the Communist bloc; whereas North America, Europe, Japan and Australasia, with only half as many people, produce five times as many goods and services. At one end of the spectrum we have the United States, whose population accounts for ten per cent of the non-Communist world and whose share in its wealth is 40 per cent. And at almost the other end of the scale is my own country, India, whose share in the non-Communist world's population is 22 per cent and which enjoys hardly 3 per cent of its total wealth.

The contrast between the two sets of societies can perhaps best be illustrated by figures for per capita income. The per capita income of the United States is somewhere around \$2,500 per annum; that of India



is \$60 per annum. These figures exaggerate somewhat the contrast, because the United States is the richest and India is among the poorest countries in the world. What is even more important is that these discrepancies in the wealth of countries are not being reduced; they are growing. So that if this process is left unchecked, the world will be even more sharply divided than it is today, with one small section of it dwelling in hitherto unimaginable luxury and ease while the other will continue to live in acute physical want and misery with inadequate nutrition, housing, clothing, education or medical care.

The reason that the disparities in wealth and levels of living are increasing rather than diminishing is basically a simple one. In the ultimate analysis, the only way to improve levels of living is to increase production by adopting better and more efficient techniques, by employing more tools and implements, and by improving the skills of workers and farmers and managers. But all this activity of training and technical improvement and investment requires more savings or a willingness to invest a part of available resources rather than to devote it to more consumption. It is precisely at this point of foregoing current consumption in order to provide for a better tomorrow that the poorer societies are at a disadvantage in comparison with the richer societies. A man who does not get a square meal a day and has to see his children die of hunger and malnutrition can hardly be expected to save much, however necessary such savings may be for improving his economic lot. It is this fact which makes poverty a double curse -- a curse for the present generation as well as for the generation now in the making. At the same time, the very fact that poverty and want have been overcome in large parts of the world has rightly created the feeling that it is not normal or natural for human beings to live in continuous poverty. The millions in Asia and Africa who have won their political freedom in recent years are now clamoring for economic freedom. And it is against this background that the need and justification for assistance from the richer to the poorer countries must be assessed.

Whether one is in favor of or against foreign economic aid depends, therefore, on whether one regards the existing and growing discrepancy in the wealth of the people of the world as a good thing or as a bad thing and on whether one believes or not that foreign economic aid can help in the alteration of this situation and in eliminating poverty and want among all the peoples of the world. My submission is that in a world that is increasingly shrinking geographically, whether we like it or not, we are becoming -- all of us -- next door neighbors to each other. It is morally intolerable and socially impracticable to allow the present state of things to continue. And if this situation is to be changed within the context of a free or democratic political and social system, there is no escape from vastly increased foreign economic aid programs.

There are, it seems to me, three reasons why the material conditions of the poorer countries should be improved with the minimum possible delay and with the help of foreign assistance. The first is purely humanitarian or moral reason. There is nobody, I am sure, in this great country of the United States who would, in this year of grace, regard it as justifiable or tolerable that one man should live in a palace

and his next door neighbor in a shanty, that one man should have so much wealth that the only use he could find for it would be ostentatious consumption and downright waste and that the children of the other should not have sufficient to keep their bodies and souls together, should have no opportunity for education, should wear tattered clothes and walk barefoot in the streets and if they were to fall ill should have no hospital to go to or medicines to cure their illness. This kind of contrast does not exist within any civilized country in the world today because the moral conscience of humanity as organized in the nation state will not tolerate it. It does, however, exist as soon as national frontiers are crossed and the fact that you cannot visually see this contrast because you are separated from it by an ever shrinking geographical protection does not make it any more justifiable.

The second reason that I believe these conditions should be altered is purely self-regarding reason, namely that of commerce or of the growing interdependence of nations economically. There is no country in the world today which is so rich that it can count on its continued prosperity and progress in the years to come without greater reliance on foreign markets and sources of supply for the materials and goods it cannot produce or can produce only at an exorbitant cost. A growing volume of international trade is the sine qua non of growing world-wide prosperity and by far the greatest force that inhibits the growth of international trade today is the continued poverty of the vast majority of the people of the world. International trade which has been a source of wealth ever since civilization began on this planet consists of the exchange of goods. But goods have to be produced before they can be exchanged. It is not at all surprising that international trade today consists principally in the interchange of goods between the highly industrialized nations of the world. The total international trade of non-Communist countries is in the order of \$200 billion. Of this trade, North America, Europe, Australasia and Japan account for \$146 billion, or nearly 75 per cent of the total. The population of these countries is only 600 million. On the other hand, Asia, Africa and Latin America account for only \$54 billion of this trade or about 27 per cent of the total; their population is 1,200 million. The same phenomenon is even more strikingly illustrated if you look at the trade of the United States. American trade with the countries of South Asia, for example, which contain one fourth of the world's population, is exactly 2 per cent of total American foreign trade. I cite these figures to show what vast new horizons of international trade, and therefore of new wealth for the world as a whole, could be created if only the underdeveloped countries of the world could be helped to produce a little more than they do now, and therefore to exchange the goods they produce for those that they need.

The third reason that I believe that the present division of the world between the haves and the have-nots cannot be allowed to continue is again a self-regarding reason although it is not as directly related to the increase of the wealth of the richer societies as the reason I have just stated. This is what may be called the political and social reason. The continued existence of great contrast between the rich and the poor has invariably led within national societies to great stresses and strains. These have sometimes resulted in violent outbursts like the French or



Russian revolutions; in other countries the change has come through evolution. The adjustment that has had to be made by all societies for their continuance as stable, strong and homogeneous units has been a lessening of the contrast between rich and poor, an opening up of opportunity to the under-privileged and the provision of tolerable conditions of life for everyone, principally through the action of the state. You will remember the dire prophecies of Karl Marx that a system which resulted in the rich getting richer and the poor poorer had the seeds within it of its own destruction and that, therefore, the capitalist system could not hope for long to survive. If Karl Marx has proved to be a false prophet, it is because he did not foresee that capitalist societies, when faced with the danger which he prophesied, would have vitality enough to transform themselves into their modern form, resulting not only in an accretion of strength to society as a whole but in the establishment of a fairer and happier environment for all sections of the community as well. The great instrument of the transformation of these societies, when you analyse the situation fully has been the progressive income tax which has resulted in the transfer of wealth from the richer individuals to the poorer and from the richer areas to the poorer areas within the boundary of the nation state. I suggest that the stresses and strains which were apparent in the Western nation states in the nineteenth and early twentieth centuries have begun to have their counterpart in the world society of the second half of the twentieth century and that the way to deal with the identical situation which has now arisen on an international scale is exactly the same as was employed to deal with the problem on the national scale.

I submit, in short, that for moral reasons, for political reasons, and even for reasons of narrow self-interest, it is not only desirable but it is imperative that the growing disparity between the haves and the have-nots of the world should be diminished as rapidly as possible. Indeed, the justification for foreign aid seems to me so obvious and overwhelming that it is difficult to understand why it does not command ready or universal acceptance. I shall, therefore, proceed to examine some of the objections that are sometimes raised against foreign aid for developmental purposes.

Part of the objection to foreign aid comes from those who hold that the countries which are poor today are poor because they are inhabited by people who are incapable of bettering their lot. I cannot help recalling when I hear arguments of this kind that, in the heyday of imperialism, it was a widely accepted belief in those who exercised political power, that colonial lands were incapable of independent political existence. It is an inherent characteristic of human nature -- and it speaks on the whole well for the essential decency of humanity -- that men always seek to find a moral excuse for that which they seek to do. The comparatively new nations inhabiting the tip of the small peninsula at the Western end of the Eurasian Continent had chosen to forget that the countries of Asia, whom they ruled until recently, had for centuries -- before Europe had even come into existence -- vast empires which occasionally extended into Europe itself. People now seem equally to forget that the present contrast in material wealth is of comparatively new origin in that the countries of Asia were before the Industrial Revolution materially as

well off, if not better, that those who now hold that for Asia to be poor is a law of nature.

Some other critics of foreign economic aid say that it does not result in economic development because foreign aid programs are administered wastefully without any regard to the willingness of the recipient countries to do their utmost to help themselves. The critics go on to argue that foreign aid becomes an unending street because it impairs the will of the recipient countries to put forth the sacrifice and efforts needed for their own development. That some aid is wasted is, I am sure, true, for the efficiency of no physical engine or human organization is one hundred per cent. But if the critics of foreign aid were to analyze their own charges, they would discover that when they talk of the waste of foreign aid, they really for the major part talk about the part of the foreign aid program which is not for economic development at all but for the expenditure on local defense forces or on maintaining the consumption of the civil population in areas that are held to be strategically important for security. Let us by all means ensure with all the means at our command that foreign aid is wisely and efficiently used, that the countries receiving aid do not relax in their own efforts to help themselves. But to scuttle the whole ship of foreign aid because of the danger of a few leaks appearing from time to time would be nothing short of suicidal. Speaking of my own country, I can say with reasonable confidence that we have used such aid as we have received to the maximum advantage, that we have spared ourselves no effort or sacrifice in developing our economy and that we have absolutely no intention of drawing upon the generosity of our friends abroad for one moment longer than is absolutely necessary. And the objective of our policy, as so often stated by Prime Minister Nehru and others, is to build a self-reliant and self-developing economy so that we may return to the world what we are taking from it by expanding the foreign aid we already give to our neighbors.

There are yet other critics of foreign aid who hold that the function of creating wealth belongs properly to private enterprise and that all that is needed is that the underdeveloped countries should invite foreign private entrepreneurs to create the wealth they need. It is no doubt true that private foreign investment can play an important part in the development of the underdeveloped areas. But it is equally true that till a society has begun to possess what has come to be known as the infra-structure of development, private foreign investment cannot play an important part. Private foreign investment is not willing in these days to go to foreign countries to invest money in dams or irrigation canals or roads or railways; it cannot possibly invest money in schools and hospitals, in universities and technical training institutions. All this and a great deal more has to be done by the people of the country themselves, usually through the agency of the government, before the ground can be prepared for the private entrepreneurs to operate on any appreciable scale. It is for this reason that, although most underdeveloped countries have tried to give a variety of fiscal and other incentives to attract private foreign capital, the flow of such capital by and large has been small in relation to the needs of these countries. Apart from this, in the capital-rich countries private capital still has enormous opportunities for profits in

conditions of full security and a climate which it fully understands. It is, therefore, not willing to take the trouble to go abroad, particularly to countries with whose manners, customs, laws and behavior it is not familiar. These are some of the reasons that, despite the best efforts and many incentives in regard to taxation, security and transferability of profits and capital and the like, India for example has been able to secure only a modest inflow of private foreign capital so far. In 1957, the total inflow of American private capital into India amounted to only \$21 million. While everything, therefore, should be done to increase the flow of private capital to the less developed countries it would, I think, be idle to pretend that private capital alone can do the job or indeed a major part of the job that needs to be done. Much the same holds true of private voluntary organizations of a charitable or philanthropic character. While such organizations have been the leaven of social conscience in every civilized society, they have never taken the place of governmental action within the boundaries of national states and there is no reason to believe that the situation would or should be different in the relations between nations.

Another objection against foreign aid programs is that they help in many countries in the establishment of authoritarian and totalitarian forms of governments. It is argued that government-to-government assistance should not be given because the more money that is given to a government the more is its authority extended in the economic field. Apart from the fact that assistance to foreign governments is often passed on to private businessmen, this objection seems to be born of the assumption that there is only one set of rules applicable to economic development at all stages of a country's growth. It is, however, undeniable -- and it is getting more and more accepted by those who devote any thought to these problems -- that in economically underdeveloped countries the state has to play a much more positive role in the process of economic development than it need do in societies which have already reached economic maturity. The alternative, therefore, is often either for the state to do a thing or for it not to be done at all. To suggest that foreign aid should not be given because it might strengthen the hands of the state is tantamount, therefore, to suggesting that economic development should not be encouraged at all.

There is one final objection to foreign aid which needs to be considered; that the richer countries cannot afford it consistent with their own economic stability. The recent outflow of gold from the United States has lent a touch of plausibility to this argument. You will not expect me, I am sure, to comment on the recent payments position of the United States or on the best means of improving it. Suffice it to say that I refuse to believe that the richest and most powerful industrial society that the world has ever known, the nation that leads a large part of the world socially, politically, and morally, whose most engaging characteristic is its warm-hearted generosity, is going to fail to fulfill the obligations of leadership -- obligations which are also in its own self interest -- because it wants more chromium on its cars or push-buttons instead of knobs on its washing machines.

I can perhaps do no better than reiterate what I have been saying so far about the significance of economic aid with reference to actual

experience in my own country. We started in real earnest to develop ourselves economically soon after independence. The First Five Year Plan for economic development started in 1951 and the second will end in 1961. In these ten years we will have invested in the economy about \$19 billion -- an amount which the United States invests every three months; Of this we will have found over \$16 billion from our own resources, taxing ourselves to the hilt and reducing ourselves to a level of austerity unimaginable in the Western world. Something less than \$3 billion will have to come to us in the form of aid from other countries, much of it in the form of surplus agricultural commodities, the disposal of which causes no pain to the donor. As a result of this, for us a superhuman effort, we will have increased our per capita income by \$13 a year from approximately \$52 to some \$65 per annum. If the foreign aid had not come, even this improvement would not have been possible.

To summarize, I would say that the present division of the world into the haves and have-nots is morally indefensible, socially and politically dangerous in the extreme and economically harmful to the rich as well as to the poor. The only way this situation can be remedied is through the transference on a substantial scale of resources from the developed to the underdeveloped countries. The sacrifice involved in this for the rich is very small indeed. They do not have to give what they already have; all that is necessary is that they share with those who do not have a fraction of the additional wealth that their riches almost automatically create every year.

## CONGRESS AND FOREIGN AID

The Honorable Clement J. Zablocki

I am delighted to participate in this Institute on Foreign Aid, sponsored jointly by Marquette University, The World Trade Club, The World Affairs Council, and various Leagues of Women Voters.

I have been assigned the task of reporting to you on "The Congress and Foreign Aid." As the anchor man in the series of speakers who addressed you yesterday and today, I have also been given a secondary task of summarizing some of the chief arguments on this important issue.

I must admit quite frankly that I had some serious reservations about imposing upon your time to present a report on the foreign policy issues considered during the First Session of the 86th Congress. I know that you have followed congressional actions during the year, and that you are familiar with them.

You will recall that only three major measures on foreign policy were considered during this past session, and that all of them involved the continuation and implementation of policies and programs previously adopted.

The foremost of the three measures was, of course, the extension of the Mutual Security Program. In this area, the Congress cut the President's request by approximately \$700 million, appropriating \$3.2 billion. Almost two thirds of this amount -- \$2 billion -- was earmarked for military aid and defense support. The remaining \$1.2 billion was intended for technical assistance, economic aid, and all the other international programs in which our country has been participating.

Second, the Congress extended Public Law 480, which provides for the sale of our surplus farm commodities for foreign currencies, and for certain related undertakings.

And, finally, the House of Representatives again approved the resolution which I proposed, expressing our Nation's opposition to the recognition of Red China and to the admission of that regime into the United Nations. In this regard, you will recall that the General Assembly of the United Nations, acting on the initiative of the American Delegation, subsequently refused to consider the question of Red China's admission to that body.

This, in brief, is a summary of Congressional actions on major foreign policy issues during the First Session of the 86th Congress.

To fulfill my assignment, I shall next develop upon the following topics: first, the question of Congressional attitude toward foreign aid;

and second, a review of the factors which argue for the continuation or for an end to our foreign aid program.

To begin, let me assure you that the vast majority of Congressmen and Senators who supported our foreign aid undertakings in the past derive little pleasure from voting for foreign aid appropriations. I believe that all of them are keenly conscious of the tremendous unfilled needs and aspirations of our own people. Nothing would please me more than to be able to devote the money which we are currently spending on the Mutual Security Program to the satisfaction of those unfilled needs of the American people.

There is, consequently, what I would call a basic bias against the appropriation of funds for foreign aid in the Congress of the United States.

In addition, there is a second factor which has come increasingly into play on this issue during recent years: many Congressmen -- and I am one of them -- are becoming convinced that our current foreign aid programs have either outlived their usefulness, or are not well suited to the needs of our new era.

In this respect, you will recall that our major international programs were intended to achieve certain specific objectives outlined by our Government more than a decade ago. They were intended, first of all, to promote the reconstruction of Western Europe; second, to provide for the establishment of a collective defense against Communist aggression; and third, through the Point Four and allied programs, to extend a helping hand to the underdeveloped nations of the world.

These goals have been largely attained. Western Europe has been reconstructed; we have also succeeded in creating a collective defense against Communist aggression; and we began the task of helping the underdeveloped nations to improve their people's level of living.

Since that time, the amazing technological developments of the past five or six years have thrust a completely new -- and perhaps the greatest yet -- challenge at us.

We are presently faced with the challenge of maintaining order and peace, and of promoting freedom, in an era of atomic-powered machines, nuclear weapons, intercontinental missiles, and man's first successful penetration into outer space.

I regret to say that our current foreign policy programs do not appear to be designed to meet the challenge of this new space age. It is largely because of this fact that the attitude of the Congress has become increasingly critical of the programs which we have labeled, during the past decade, with the name of "Foreign Aid."

To recapitulate, I would say that two things stand out clearly at this juncture regarding the attitude of the Congress toward foreign aid; first, there exists in the Congress a basic bias against foreign aid and for domestic expenditures; and second, there is a growing awareness of



the obsolescence of our current foreign aid programs, and consequent resistance to their continuation.

Bearing in mind what I have just outlined, let me attempt to look a bit into the future. Summarizing some of the views advanced during this Institute, and supplementing them with my own convictions, I shall next attempt to sketch a tentative answer to the question, "What lies ahead for foreign aid?"

It seems to me that, in answering that question, we must address ourselves to three distinct problems:

First, what course must we pursue in the field of foreign policy in order to provide for the security of our own Nation and that of the free world?

Second, military considerations aside, to what extent is our Nation self-sufficient and able to advance the standard of living of our own people, without regard to other countries?

And third, what long-range policy is dictated by our national self interest with respect to the newly independent and soon to be independent nations?

Let me begin with the issue of our national security.

To my mind, the goals and activities of international Communism will continue to dominate any discussion of our national security for years to come. If the Communist designs for world domination remain real, then we must be prepared to stop them. If, on the other hand, the Communists will abandon their traditional objectives, we can then proceed with a thorough revision not only of our foreign policy, but also of our national budget, and a drastic curtailment of our annual \$40 billion defense outlay.

Having followed Communist activities with considerable interest, and having observed the Communists at close range during the past three months in the United Nations General Assembly, I find no basis for the conclusion that the Communist threat to our national survival has appreciably diminished. Communist actions speak louder than do their words, and their actions show clearly that the Reds have not yet abandoned their plans for world domination. Not wishing to run the risk of complete self-destruction, they have probably altered their timetable and their plans for a massive frontal attack upon the United States and our Allies. We must bear in mind, however, that they have not reduced their military strength nor abandoned their ultimate strategic goals. According to reliable estimates, the Communists still maintain approximately four million men under arms. Their fleet of missile-launching submarines, their widely dispersed intercontinental-ballistic-missile bases, and their considerable achievement in penetrating into the outer space (which has potentially serious military implications), attest both to the high quality and to the size of the Soviet military potential.

Further, the Communist offensive in the non-committed and in the underdeveloped countries of the world, as well as in our own back yard in Latin America, has not abated. Their economic, technical and subversive penetration of those vital areas of the world continues at an increasingly rapid, even alarming pace.

I believe, therefore, that the Communist threat to our survival continues to be real, very real. Let us not delude ourselves. The Communists today are not a bunch of backward Bolsheviks. They have made tremendous strides in the past decade. They control 900,000 million people. Their economy is expanding. Their scientific achievements need no advertising. They are making constant headway, and the military power which backs all of their programs continues to grow.

Under these circumstances, it would be foolhardy on our part to contend that the Communist threat to our survival was abated. We simply cannot afford to reach such a dangerous conclusion. On the contrary, we must take the Communist threat into full account, both with respect to our domestic defense expenditures and with respect to our international security arrangements.

Once we accept the reality of the Communist threat, the question arises whether it is better for us to rely on our own defenses -- to go it alone -- or to try to meet that threat through cooperation with other nations.

Our experience with the Mutual Security Program would appear to give us some valuable clues on this score.

During recent years, the Mutual Security Program and our other collective defense arrangements have given us the protection of over 250 air bases and installations around the periphery of Russia and of her satellites.

We have also derived direct security benefits from the 4.7 million men under arms, the 32,000 aircraft, and the 2,500 combatant vessels which constitute the combined strength of the North Atlantic Treaty Organization countries.

The Free World's military stature has been further enhanced by the armed forces in other areas of the world in which our program has operated.

Let us next look at some interesting figures relating to the cost of this mutual defense effort.

During the past ten years, the United States spent over \$350 billion on our own domestic defense establishment. During that same period, we have provided \$22 billion worth of military aid to our allies. On their part, the recipients of our military assistance spent \$122 billion on their own defense budgets. They have, therefore, contributed \$5 for every dollar which we gave them for mutual defense of the Free World.

I could cite more figures which show the extent to which our Nation has benefited from the collective defense arrangements in the Free World, but I am certain that you are already familiar with them.

Our system of defensive alliances all over the world has built up a total strength in which our home forces represent only about one fifth of the ground force strength, one half of the combat planes available, and one third of the naval craft in readiness.

These are the hard facts which we must keep in mind when we hear ill-informed persons charge that the money spent on the Mutual Security Program has gone "down a rat hole." We must also keep these facts in mind in designing our security arrangements for the new space age.

Now let us turn to the second question and see whether other free nations are important to our own economic progress and well-being, or whether we could be better off by abandoning our international trade cooperation and assistance ventures.

In attempting to answer this question, I would like to point out that, in general, the dollars which we have spent on our foreign aid programs have never been shipped to foreign countries. Those dollars were spent right here in the United States. In most cases we have extended aid to others in the form of weapons, commodities, machinery and services which were bought and paid for in the United States.

Almost 80% of every foreign aid dollar has been spent in our own country, providing jobs for our workers and income to our people. Our city people and farmers have shared in this.

The second point that I want to stress is that our nation is not self sufficient, and that our dependence upon foreign sources of materials and markets, required by our expanding economy, will continue to grow.

Among other materials, we depend on foreign countries for 100 per cent of our needs for natural rubber, tin, and industrial diamonds.

We import 96 per cent of our consumption of nickel, 98 per cent of platinum, 88 per cent of antimony, 91 per cent of chrome, 86 per cent of manganese, 80 per cent of cobalt, 78 per cent of bauxite, 59 per cent of tungsten, and many many other raw and semi-finished materials.

Our overseas sources of these materials must continue to be available to us if we expect to advance the welfare of our people, and to stimulate our national economic progress.

These facts must be considered in the formulation of our future policies with respect to the rest of the free world. We must prevent the Communists from gaining control over the world's resources, either through direct conquest or through infiltration and subversion. We must also retain and cultivate the friendship of the peoples whose products and materials are important to our mutual welfare and security.

The third problem which I mentioned deals with our long-range policies vis à vis the newly independent and soon to be independent nations.

I must say that I have become particularly conscious of the importance of this problem during my assignment at the United Nations, where I have worked closely for the past three months with delegates representing many many newly independent countries, and areas aspiring to independence. At the present time, the majority of nations in the world are included in this group -- a group which, I may add, will continue to increase in numbers in the years to come. If you recall, 21 countries and more than 700 million people have emerged from colonial status since the end of World War II. Four more are scheduled to gain independence next year.

Some people estimate that, eventually, approximately 40 additional new countries may come into existence.

The strength and the resources of these new countries make them a force to be reckoned with in international affairs. We must, therefore, take them into consideration in formulating our own long-range foreign policy objectives.

The fact which we must always bear in mind is that these peoples earnestly aspire to economic and social advancement. Many of the newly independent countries have an abundance of human and natural resources. Others are less fortunate. All of them, however, are underdeveloped. Further, all of them are determined to overcome that particular handicap, regardless of cost or consequences.

Our policies toward the peoples of the underdeveloped countries will have a profound effect on the future state of international relations. I believe that the question of world peace will be related for a long time to the ability of those new nations to secure technical, economic and financial help, and to realize their ambitions. It is up to us, as the leader of the Free World, and as the richest and most advanced of the Western countries, to lead the Free World in meeting the Communist challenge in this particular area.

To sum up, I believe that there are three major reasons which argue against our disengagement from the rest of the Free World. These reasons, needless to repeat, have a direct bearing on the security and future welfare of our own Nation.

The first of them is the military threat of Communism, which in my estimation makes it economically and militarily unfeasible for us to abandon the concept of collective Free World defense. "Going it alone" would be simply prohibitive.

The second is the inescapable fact that we are not self sufficient. We need the world, perhaps as much as the world needs us, in order to advance the welfare and to realize the aspirations of our own people.

And the third, the factor of the increasing number of underdeveloped

newly independent nations, also mitigates against our withdrawal into isolation.

I believe, therefore, that our commitment to international undertakings will continue. It will continue because such a course is clearly in the interest of our own Nation.

I am confident that the American people, having carefully considered the issues which I have tried to summarize in my presentation, will urge their Representatives in the Congress to support enlightened and far sighted foreign policy programs.

I am equally confident that we shall rise to the challenge and devise a realistic foreign policy, suited to the demands of the new space age and to the requirements of our dynamic economy. The Committee on Foreign Affairs, of which I am a member, has been engaged in this task of continually reviewing our foreign policy programs. We hope that we will receive, in the future, greater measure of cooperation in our work from the Administration. It is only by working together that we can hope to produce results which will bring us ever closer to the realization of our ultimate goal, the goal of lasting and just peace in the world.

## FOREIGN AID -- POINTS OF VIEW

Eric Waldman

The purpose of this summary is not only to review the ideas expressed by the different distinguished speakers, but also to restate the basic purpose of this conference. We have attempted to examine the scope, contents, and methods involved in our economic assistance and mutual security programs from different points of view. This approach was intended to make us realize the complexity of the problem. It was also designed to furnish us with information and interpretations in order to assist each one of us in formulating our own opinion about the foreign aid program of the United States. A respectable value judgment and an intelligent position must of necessity be based on facts and on a clear understanding of the objectives of the program under examination.

This aim of the conference was undoubtedly achieved. The excellent papers presented by our main speakers and the stimulating discussions during the question periods which followed the several addresses did contribute to an immensely improved knowledge among the participants of the conference.

The brevity of this summary does not permit a detailed account of the different views expressed. It is, however, within the realm of the possible to point out some of the most significant concepts and opinions presented.

In order to bring our discussion into the proper perspective in terms of financial cost, I believe that Ambassador Nehru's comment concerning the size of the funds involved in our foreign aid program should be mentioned first. We are always under the impression that the mutual security program of the past fiscal year amounted to \$3.2 billion. This total figure is certainly correct; however, as Ambassador Nehru pointed out, about \$2 billion of this sum was used to assist foreign military establishments. When, furthermore, the cost of special projects such as aid to Hungarian refugees and the landing and maintaining of American troops in Lebanon are also deducted from the \$3.2 billion, only \$700 to \$800 million were left for bona fide economic development aid.

Ambassador Nehru, while avoiding any comment on the American internal discussion concerning foreign aid, did remind us, however, of a debate which took place in our Congress. This discussion was concerned with the possibility of adding the cost of the military part of our foreign aid program to our defense budget and of discontinuing the practice of including it within the over-all sum of our foreign aid program.



Ambassador Nehru strongly emphasized his conviction that for moral and humanitarian reasons, a "vastly increased foreign economic aid program is an absolute necessity." He also expressed belief that a policy of economic aid is clearly in harmony with an enlightened self-interest of the well-to-do nations because of the growing interdependence of the world's economy. As far as the Ambassador is concerned, the maintenance of the status quo, that is, keeping the distinction between have and have-not nations, is no longer a possible and realistic alternative to the economic aid program. Furthermore, the status quo is also morally indefensible. "The only way this situation can be remedied is the transference on a substantial scale of resources from the developed to the underdeveloped countries."

Mr. FitzGerald, in his address, also endorsed a strong policy of economic aid and a continuation of our mutual security program -- a term he prefers to that of "foreign aid program." He set forth three reasons for his position: (1) the fact that unfriendly nations are in control of tremendous military power; (2) the fact that underdeveloped nations are involved in a surge for economic and social progress; and (3) the fact that the United States is increasingly dependent upon overseas trade.

Mr. FitzGerald also reminded us that within the scope of the overall struggle of the Free World versus the Soviet Bloc, the Soviets have, during the past three years, entered into agreements with 21 countries. The Soviet countries have committed themselves to economic aid in the amount of \$2.4 billion. This fact, according to Mr. FitzGerald, places the United States in a position of "enforced competition" in the economic aid field.

Mr. FitzGerald summed up his evaluation by asserting that "the real question about the mutual security program is not, 'what does it cost?', but, 'what is it worth?'" The answer, quite obviously, must be found in terms of our own security and in terms of the moral implications of our aid so candidly stressed by Ambassador Nehru.

Congressman Zablocki presented us with an excellent analysis of the attitude which prevails within Congress and which is marked (1) by a basic bias against appropriation of funds for foreign aid, and (2) by an opinion that certain aspects of our program have either outlived their usefulness or are not well suited to the needs of our present situation. Congressman Zablocki himself, however, is of the opinion that our commitment to assist foreign countries will continue because of the actual military threat coming from the Communist orbit. Furthermore, it is increasingly evident that we are not self-sufficient and that we cannot "go it alone." We need the other peoples of the world, and must be able to rely on them. The continuation of foreign aid is, therefore, an outright necessity. We must assist the underdeveloped countries.

Both Congressman Zablocki and Mr. FitzGerald stressed the fact that our foreign aid "investment" is sound. For example, in the military aid field, to every dollar designated for military aid which we make available to our Allies, they add \$5 to \$6 of their own in order to strengthen our mutual defense establishment.

While Congressman Zablocki would not make any prediction concerning the amount of money involved in our future foreign aid program, Mr. FitzGerald cited a recent report prepared for the Foreign Relations Committee of the United States Senate. This report envisages the need for a marked increase in our foreign aid program for the next ten years.

General Draper, in his presentation, gave us not only a splendid background study of our mutual assistance program, but also explained to us the reasons for his belief that our military aid to other countries did achieve its main objective in terms of our own national military strategy. It did succeed in preventing the outbreak of a worldwide nuclear holocaust.

The committee headed by General Draper unanimously arrived at the conclusion that in the first place the Communist threat is at present greater than ever and second, that the military, political and economic capabilities of the Soviet Bloc are extensive and still in the process of further development. In his estimate, our mutual security program is a very sound concept, and also a most essential tool of our foreign and military policies. It is General Draper's contention that the mutual security program should be increased and not reduced in scope and amount.

The last speaker of our Institute, Mr. Walter Harnischfeger, certainly made a very strong case in favor of a gradual decrease in foreign aid, starting immediately, and an eventual end to foreign aid within the foreseeable future. Mr. Harnischfeger included in his policy proposal the military and economic aspects of our foreign aid program. His conviction is based on a number of beliefs such as (1) that the very spending "under the guise of economic assistance and military aid ... has been a serious impairment of our own economy and a weakening of the defense of America ..." through contributing to dangerous inflation; (2) that the administration of our foreign aid program is marked by an extreme wastefulness and has built up a tremendous bureaucracy comprised of about 20,000 people; (3) that the program which was intended to fight Communism has essentially failed in achieving its objective; (4) that the best defense against Communism is a healthy internal economy for the United States and a balanced budget; and finally (5) that the only real deterrent to Communist aggression is our Strategic Air Command.

It is not my task to evaluate any of the statements made by the several speakers. The objective of this summary, it should be recalled, is only to recall to our attention the highlights of the various addresses. We cannot fail to note the variety of opinions expressed and the fact that they are all predicated on the same basic information concerning U.S. foreign aid, in terms of its present scope and management. As in so many areas of human endeavor, the same facts can be given thoroughly different interpretations by people whose sole motivations are the interest of the United States and that of the world at large.

I would like to end my summary by expressing the hope that you will agree with me in my contention that our Institute has given all of us additional information and material for further thought on this vital subject of our economic aid to other nations. If this should be so, then we may consider that our Institute has achieved its objectives.





